

Message Text

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ACTION NEA-10

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E.O. 11652: N/A

TAGS: EINV, EMIN, CG

SUBJECT: ZAIRE ALUMINUM PROJECT - COMPETITION

REF: KUWAIT 4081, KUWAIT 4435

1. SUMMARY: PROPOSED REYNOLDS PROJECT MAY CONFLICT WITH THOSE OF ALUSUISSE AND KLOECKNER WITH WHOM GOZ HAS ALSO BEEN IN NEGOTIATION. POLITICAL AND INVESTMENT CLIMATE IN ZAIRE APPEARS REASONABLY GOOD ALTHOUGH GOZ IS CURRENTLY EXPERIENCING ACUTE FINANCIAL DIFFICULTIES. IT HAS ANNOUNCED STABILIZATION PROGRAM WHICH HOPEFULLY WILL CONTROL FOREIGN EXCHANGE EXPENDITURES AND REGULARIZE SERVICING OF MEDIUM AND LONG-TERM DEBT. IMF TEAM IS SCHEDULED TO ARRIVE KINSHASA WITHIN NEXT FEW DAYS TO EXAMINE STABILIZATION PROGRAM AND, IF APPROVED, IT IS CONTEMPLATED THAT IMF MAY EXTEND EXTENSIVE FINANCIAL SUPPORT UNDER STANDY AGREEMENT. END SUMMARY

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2. EMBASSY AWARE FOLLOWING TWO SOURCES POSSIBLE COMPETITION

FOR REYNOLDS IN DEVELOPING ZAIRIAN ALUMINUM PROJECT:

A) ALUSUISSE: IN LATE SEPTEMBER, FORMER PRESIDENT NELLO CELIO OF SWITZERLAND AND NOW ADMINISTRATOR OF ALUSUISSE VISITED ZAIRE. THIS HIGHEST LEVEL FOLLOW-UP TO DATE IS SERIES OF GOZ/ALUSUISSE NEGOTIATIONS OVER PAST YEAR. ACCORDING LOCAL SEMI-OFFICIAL PRESS, MEETINGS WITH PRESIDENT MOBUTU AND OTHER GOZ OFFICIALS LED TO FURTHER SPECIFICATION OF TERMS OF ACCORD SIGNED IN JUNE OF THIS YEAR. REPORTS AND INFORMATION AVAILABLE FROM USUALLY WELL-INFORMED SOURCES ARE NOT RPT NOT IN TOTAL AGREEMENT ON WHAT MANDATE SWISS ACTUALLY HAVE. SWISS CHARGE TOLD EMBOFF RECENTLY THAT ALUSUISSE HAD EXCLUSIVE RIGHTS TO EXPLOITATION AND REFINING OF BAUXITE DEPOSITS IN LOWER ZAIRE FOR EXTENDED PERIOD. SWISS CHARGE TOLD OTHER DIPLOMATIC COLLEAGUE DEAL WAS FOR ONE YEAR, WITH OPTION TO RENEW FOR TEN. EARLIER REPORT FROM DIFFERENT BUT WELL-PLACED SOURCE INDICATED ZAIRE HAS ONLY AGREED LET ALUSUISSE CARRY OUT FURTHER FEASIBILITY STUDY. LATTER STORY NOW APPEARS LESS LIKELY IN VIEW OF CELIO VISIT. MANGNITUDE OF PROJECT UNDER STUDY IS FOR ANNUAL PRODUCTION OF 150 THOUSAND TONS OF ALUMINUM. COST ESTIMATED AT ONE BILLION SWISS FRANCS (\$375 MILLION).

B) KLOECKNER (WITH POSSIBLE U.S. PARTNER): KLOECKNER IS LEADER OF PRIMARILY GERMAN CONSORTIUM, ASSINEZ, ORIGINALLY MANDATED FOR BROAD SCOPE INDUSTRIAL DEVELOPMENT OF NORTHEAST OF ZAIRE. ACCORDING RESIDENT ASSINEZ REP, SECONDED FROM KLOECKNER, MANDATE RECENTLY EXPANDED TO COVER OTHER AREAS OF ZAIRE. ONE OF PROJECTS OF MOST INTEREST TO GROUP IS SAME ALUMINUM PROJECT REYNOLDS AND ALUSUISSE CONSIDERING. KLOECKNER HAS ALSO SHOWN INTEREST IN HAVING JOINT VENTURE WITH AMERICAN COMPANY. THIS WAS MADE KNOW TO ALL MAJOR U.S. FIRMS IN FIELD, INCLUDING REYNOLDS. ALUMAX OF SAN MATEO, CALIFORNIA, HAS INDICATED INTEREST.

3. ABOVE INTERESTS, SEEN IN CONJUNCTION WITH APPARENT GOZ WILLINGNESS TO TALK ABOUT EXCLUSIVITY, LEAVES SOME DOUBT IN OUR MINDS RE GOZ COMMITMENT TO REYNOLDS. TO BEST OUR KNOWLEDGE, THERE HAS NOW BEEN CONSIDERABLE GAP LIMITED OFFICIAL USE

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IN REYNOLDS/GOZ CORRESPONDENCE. IT IS POSSIBLE THAT GOZ NO LONGER CERTAIN OF REYNOLDS INTENTIONS AND INTEREST.

4. FROM CRITICAL ELECTRIC POWER POINT IN VIEW, THERE IS NO REASON WHY TWO ALUMINUM PROJECTS COULD NOT BE ESTABLISHED IN LOWER ZAIRE REGION. INGA II DAM PROJECT WILL PROVIDE MORE THAN SUFFICIENT CURRENT. OUR

ADMITTEDLY SKETCHY KNOWLEDGE OF LOWER ZAIRE BAUXITE DEPOSIT NEVERTHELESS LEADS US TO DOUBT THAT TWO PROJECTS COULD BE FED FROM LOCAL ORES. WE HAD ORIGINALLY UNDERSTOOD THAT ALUSUISSE WANTED TO IMPORT ALUMINA FROM OTHER SOURCES. THIS WOULD HAVE FIT WELL WITH REYNOLDS OR TOEHR PROJECT DRAWING ON LOCAL ORES. NEW PICTURE OF ALUSUISSE APPARENTLY EXPLOITING LOCAL DEPOSITS ADDS NEW ELEMENT TO EQUATION.

5. EMBASSY HAS NO OBJECTION TO ALL OF ABOVE BEING PASSED REYNOLDS, EXCEPT, OF COURSE, LAST SENTENCE PARA 2B RE ALUMAX INTEREST.

6. PARA 5 REFTEL STATES THAT GOK WILL BE PARTICULARLY INTERESTED IN POLITICAL AND INVESTMENT CLIMATE IN ZAIRE AND INVITES OUR COMMENTS. POLITICAL SITUATION APPEARS REASONABLY STABLE AS EXEMPLIFIED BY FACT THAT PRESENT MOBUTU GOVT WILL CELEBRATE ITS TENTH ANNIVERSARY ON NOVEMBER 24 THIS YEAR. AS FOR INVESTMENT CLIMATE, GOZ HAS NATIONALIZED MOST FOREIGN-OWNED INDUSTRY, COMMERCE, AND TRANSPORT BUT NOT THAT ESTABLISHED UNDER 1969 INVESTMENT CODE. GOZ IS PRESENTLY EXPERIENCING ACUTE FOREIGN EXCHANGE CRISIS WITH NEGATIVE FOREIGN EXCHANGE RESERVES AND IS IN ARREARS IN SERVICING OF ITS FOREIGN DEBT. NEVERTHELESS, U.S. AND OTHER FOREIGN FIRMS ARE CONTEMPLATING ADDITIONAL INVESTMENT IN ZAIRE BECAUSE OF COUNTRY'S CONSIDERABLE ECONOMIC POTENTIAL. GOZ HAS RECENTLY ANNOUNCED STABILIZATION PROGRAM WHICH SHOULD CONTROL FOREIGN EXCHANGE EXPENDITURES AND REGULARIZE SERVICING OF MEDIUM AND LONG-TERM DEBT. AN IMF TEAM IS SCHEDULED TO VISIT KINSHASA WITHIN NEXT FEW DAYS TO REVIEW STABILIZATION PROGRAM. IF IMF TEAM APPROVES PROGRAM, IT IS CONTEMPLATED THAT IMF LIMITED OFFICIAL USE

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WILL EXTEND ZAIRE SIGNIFICANT FINANCIAL ASSISTANCE UNDER STANDBY AGREEMENT WHICH SHOULD BE BASIS FOR RESOLVING PRESENT FOREIGN EXCHANGE DIFFICULTIES.
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